

**IN THE MATTER OF THE APPLICATION REGARDING CONVERSION
OF PREMIERA BLUE CROSS AND ITS AFFILIATES**

Washington State Insurance Commissioner's Docket # G02-45

PRE-FILED DIRECT TESTIMONY OF:

Brian Ancell

Executive Vice President of Health Care Services and
Strategic Development
Premiera Blue Cross

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Introduction of Witness

Q. Please state your name.

A. My name is Brian Ancell.

Q. Please identify your employer, your title and business address.

A. My name is Brian Ancell. I am employed by Premera Blue Cross ("Premera") as its Executive Vice President of Health Care Services and Strategic Development. Premera is located at 7001 220th Street SW, Mountlake Terrace, Washington.

Summary of Testimony

- Broad and stable networks are important to Premera's success in the marketplace, and market appropriate provider compensation and good provider relations are important to maintaining those networks.
- To meet the needs of its customers, Premera works very hard to balance the need to pay providers a market-competitive rate with the need to moderate the increasing trend in health care costs. We have a number of innovative programs that improve the quality of care that members receive while helping to moderate health care cost trends.
- Competition forces us to remain in line with other insurers in the state as to provider reimbursement and member premiums.
- Providers throughout Washington possess significant levels of bargaining power with Premera.
- There are no limits on the ability of a health plan wishing to enter, or expand within, the Washington market.

Credentials

Q. Please describe your professional training and experience.

A. I have served as the Executive Vice President of Health Care Services and Strategic Development for Premera Blue Cross since January 2000. In this role, I am responsible for Premera's provider network development, provider relations, care facilitation, special products and strategic development for the company.

1 I have held a number of roles at Premera. From 1997 to 2000, I served as Senior
2 Vice President of Operations for Premera Blue Cross. In this role, I was responsible for
3 the company's claims processing, customer service, facilities, corporate quality and
4 investigation and recovery. Prior to that, I served as Senior Vice President of Strategic
5 Development and Marketing.

6 Prior to joining Premera, I held various positions with Deloitte & Touche as a
7 management consultant from 1992 to 1996. While at Deloitte, I advised a number of
8 clients on operations, organizational design, managing organizational transition and
9 strategic issues. During this period, I spent two years working with Premera as a client.
10 Prior to joining Deloitte, I spent 2 ½ years with the Boise, Idaho office of Coopers &
11 Lybrand.

12 **Q. Please describe your educational background.**

13 A. I received a Master of Business Administration from Harvard University in 1992,
14 and a Bachelors Degree in Business Administration from Boise State University in 1988.
15 I am a Certified Public Accountant (inactive status) and am a member of the American
16 Institute of Certified Public Accountants.

17 **Testimony**

18 **Q. What is the role of Health Care Services at Premera?**

19 A. At Premera, Health Care Services is responsible for three main areas. First, we
20 manage provider contracting for all of Premera's provider networks throughout
21 Washington, Alaska, Oregon and Arizona. This includes the contract negotiations
22 with providers, as well as health care unit cost budgeting and analysis which is performed
23 jointly with the health care economics and actuarial units.
24

1 Second, we handle provider relations. Our provider network relations team does
2 everything from answer providers' questions about the claims payment process to helping
3 with contract questions, policies and procedures.

4 Finally, our Care Facilitation team helps members receive appropriate and
5 effective care through our disease management, care management, pharmacy and quality
6 programs.

7 **Q. How broad are Premera's provider networks.**

8 A. Premera has worked for many years to develop one of the largest and most
9 comprehensive provider networks in the state. Through our Premera Blue Cross network,
10 we contract with over 16,000 providers and over 94 hospitals in every county in the state.

11 **Q. How important are provider networks in Washington to Premera's success?**

12 A. Strong provider networks are very important to Premera's success for several
13 reasons. We seek to provide choice for our members by offering several network
14 options. These options include very broad networks with wide access. They also include
15 smaller more cost effective networks as are available with our Dimensions products.
16 This allows our customers to make specific trade-offs between broad access and cost.
17 Regardless of their size, our networks need to include an adequate number of providers to
18 provide physician and other health care provider choice and a selection of specific types
19 of providers for the full range of covered services. Premera also needs to provide
20 network options that are at least as attractive as those of our competitors. Because
21 networks are an important consideration for health insurance purchasers, a failure to
22 maintain strong networks would put the health plan at a competitive disadvantage.
23 Further, because we have membership throughout the state we want to maintain a
24 network in every county in the state.

1 We also work very hard to ensure a high degree of network stability so that our
2 members have ongoing access to their physicians. Over the last two years, fewer than
3 1% percent of the providers in our network have exited the network.

4 We also need to provide network options which are as broad or broader than our
5 competitors' networks so that an employer group or member may purchase a Premera
6 product with a minimum of disruption of the physician-patient relationship. When
7 consumers switch from another health plan to Premera, there is a strong likelihood that
8 their physician will be in our network.

9 **Q. Is Premera subject to any regulation of its networks?**

10 A. Yes. Like other Washington health plans, we are subject to Washington state
11 regulations governing network adequacy. These regulations require that Washington
12 health plans maintain networks that provide access to a sufficient number and type of
13 providers so that a member can access all services covered by the member's health plan.
14 The regulations also require that health plans comply with network adequacy standards
15 that are filed with the Washington State Office of the Insurance Commissioner. In the
16 event that a health plan member cannot access network care as required by the
17 regulations, a health plan may be required to ensure that the member pays no more than
18 the member would have paid if the care were rendered by an in-network provider. This
19 creates a significant incentive to maintain broad and robust networks in every area of the
20 state where a health plan has membership.

21 **Q. How does Premera seek to maintain positive relationships with its providers?**

22 A. Premera works very hard at building and maintaining positive provider relations
23 throughout the state by reimbursing providers at fair and market-appropriate rates, and
24

1 continually seeking ways in which we can ease the administrative hassles that providers
2 can experience when dealing with health plans.

3 We meet with individual physicians, clinics and hospitals whenever operational
4 issues arise to address those issues. In addition, Premera has established a number of
5 forums to elicit and address provider input. Two examples include the Relative Value
6 Practice Patterns Committee and the Regional Advisory Physician Panel. The Relative
7 Value Practice Patterns Committee is a committee of providers that convenes periodically
8 in Spokane to assist Premera in analyzing a variety of issues, frequently involving
9 provider reimbursement levels. The Regional Advisory Physician Panel is a group
10 consisting of primary care physicians in Spokane, as well as specialists and hospital staff
11 in the Tri-Cities and Wenatchee. The panel meets quarterly in Spokane and semi-
12 annually in the Tri-Cities and Wenatchee. The panel addresses issues of medical policy,
13 pharmacy and disease management and quality programs.

14 In addition, Premera is a founding member of the Washington Health Care Forum
15 (the "Forum"). The Forum is a group of leading health plans, hospitals, provider groups,
16 the hospital and medical associations as well as community business leaders. Its mission
17 is to improve the way in which its members collectively deliver health care and health
18 care coverage to Washington consumers. The Forum's Administrative Simplification
19 Work Group, including Premera, has suggested a series of administrative simplification
20 measures to Forum members and the market at large. These measures have won wide
21 adoption in the market and acclaim from providers and hospitals. These measures
22 include:

- 23 - Uniform Credentialing Applications
- 24 - The use of common claims modifiers
- Certain uniform claims procedures and standards
- Standard and more streamlined referral procedures

1 Premera also implements technology solutions to improve the administrative
2 functions with its network providers to make them more cost effective and efficient
3 including a new business platform and claims adjudication system as part of its ongoing
4 effort to simplify and improve the way in which we do business with providers. Finally,
5 Premera is a founding shareholder in OneHealthPort. OneHealthPort is a community-
6 wide secured data transmission available on a subscription basis. It has been widely
7 adopted by major health plans and providers in the Washington market.
8

9 **Q. How successful have these efforts been?**

10 A. These efforts have been extremely successful. Our success at improving provider
11 relationships is evidenced by physician impressions of, and willingness to work
12 collaboratively with, Premera.

13 A national survey firm was asked recently by Premera to survey network
14 physicians about their relationship with the company. The survey concluded that 75% of
15 physicians surveyed rate Premera “much better” or “better” than other health plans, up
16 from 59% in 2002. The survey further concluded that 69% of physicians surveyed rated
17 our Provider Relations Programs “much better” or “better” than other health plans. The
18 survey also concluded that physicians rated our customer service 8.1 (on a ten-point
19 scale) and nearly 75% of those surveyed rated it “much better” or “better” than other
20 health plans. Finally, the survey concluded that overall physician satisfaction with
21 Premera went (on a ten-point scale) from 7.3 to 7.7 during 2003.

22 Premera’s collaborative efforts with providers are also widely recognized. We
23 jointly developed an innovative diabetes disease management program with the
24 Wenatchee Valley Clinic. That program was the subject of a joint presentation with the
Wenatchee Valley Clinic to the national conference of the American Medical Group

1 Association (“AMGA”) in 2003. Premera and The Rockwood Clinic of Spokane also
2 made a presentation to the Western regional AMGA conference on Premera’s
3 collaborative approach to the physician-payor relationship in 2003.

4 **Q. Please provide an overview of Premera's approach to provider
reimbursement.**

5 A. As I stated earlier, Premera’s customers demand choice and access to broad and
6 cost effective networks. Good provider relationships are required to maintain those
7 networks. That is not possible without offering competitive provider reimbursement
8 rates.

9 **Q. What have been Premera’s recent provider rate increases?**

10 A. Between 1999 and 2003, our state-wide average rate of provider reimbursement
11 rates increased by 20%, an average of 4.7% per year. Breaking this down further to
12 distinguish between Eastern Washington and Western Washington:

13 Eastern Washington 1999 to 2003: 21.2%

14 Western Washington 1999 to 2003: 19.4%.

15 Premera’s projected statewide average increase for 2004 is 3.5%.

16 In addition to the increases described above, Premera has taken other steps to
17 address provider concerns about reimbursement levels. Premera uses the Medicare
18 Resource Based Relative Value Scale as the basis for its fee schedule, as do many other
19 health plans. Between 2000 and 2001, Medicare reimbursement for certain specialty
20 codes dropped by 20% or more. In response to input by the provider community, in 2000
21 Premera limited the amount by which any code could be reduced to 7%, and no codes
22 were reduced in 2001.
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24

1 **Q. What role does Premera's Health Care Services unit play in managing health**
2 **care cost trends?**

3 A. Total health care costs have grown nearly 15% per year over the last few years.
4 This inflation is driven by a number of factors including increased utilization from an
5 aging population, greater use of more expensive medical technology in treatment,
6 increased pharmaceutical costs, and provider reimbursement rates that are rising in excess
7 of inflation. These trends are expected to continue into the foreseeable future. As a
8 result, purchasers look to health plans to find ways to help moderate these cost trends.

9 Therefore, Premera must balance provider reimbursement demands with the need
10 to moderate health care costs trends. Premera therefore negotiates provider contracts that
11 pay market-appropriate rates to our network providers. We also seek to mitigate rising
12 health care cost trends by promoting cost effective care. Approximately 6% of our
13 members account for about 60% of health care costs. Accordingly, addressing the health
14 care needs of this population in a cost efficient way can have a significant impact on
15 health care cost trends. To that end, Premera has implemented innovative Care
16 Facilitation programs that help members to obtain, and providers to deliver, quality cost-
17 effective care. Dr. Roki Chauhan has provided testimony in this matter which further
18 describes our Care Facilitation programs.

19 **Q. It has been said that Premera has significant leverage in provider**
20 **contracting. Are there circumstances where providers have significant**
21 **bargaining leverage in the contracting process?**

22 A. There are many situations across the state in which providers possess significant
23 bargaining power in their relationship with Premera. First, providers in less populated
24 areas frequently face far less competition from other providers than in more populated
areas. Therefore, Premera has limited alternatives if it wants to maintain a network in
those areas.

1 Second, there are a number of highly specialized practices that have little or no
2 incentive to contract with health plans because they have limited competition in their
3 specialty. Such practices understand that members will seek care from them, whether or
4 not they have a health plan contract. An example of such a practice is Pediatrix, a
5 publicly held pediatrics and neo-natal intensive care practice with an over 80% market
6 share in their specialty state-wide. Premera needs Pediatrix and other providers that are
7 similarly well positioned in its network.

8 Third, there are a number of large multi-specialty clinics throughout the state that
9 are very important to try and include in the network. In the less populated areas, such
10 clinics provide a high percentage of the care in their market. These clinics also have
11 significant bargaining power with Premera.

12 Fourth, there has been a consistent pattern of provider consolidation throughout
13 the state. One of the results of consolidation is that the new and larger groups have far
14 greater bargaining power with health plans than the separate providers possessed prior to
15 consolidation. For example, Orthopedic Consultants of Washington recently merged
16 with Surgical Associates of Washington to form Proliance, the largest Orthopedic
17 Surgery Group in the state of Washington. Another example is the merger scheduled for
18 July of 2004 in which Eastside Gastroenterology, Digestive Disease Center, and Seattle
19 Gastroenterology will combine to become the largest specialty group of its kind in
20 Washington.

21 **Q. Does Premera's contracting approach change depending on the geographic**
22 **location of the provider?**

23 A. Premera's contracting approach does not change based on geography. Our
24 standard contract and our contracting procedures and priorities remain the same in all
 parts of the state. Premera is truly a state-wide health plan when it comes to provider

1 contracting. While the supply and range of provider specialties may vary across the state,
2 our goal remains as I described it above: to maintain broad provider networks across the
3 state based upon competitive reimbursement and good provider relations in order to
4 provide our members with the most robust network possible.

5 **Q. Are provider reimbursement levels or the contracting process likely to**
6 **change materially as a result of the conversion?**

7 A. Absolutely not. Premera's provider reimbursement rate setting and contracting
8 processes will not change as a result of a conversion to for-profit status.

9 As a non-profit, Premera's network priorities are to maintain a stable and
10 attractive network for our members, manage health care cost trends, and satisfy or exceed
11 regulatory adequacy standards. To meet that objective we pay competitive
12 reimbursement rates to our providers.

13 Our priorities to maintain a stable and attractive network for our members,
14 manage health care cost trends, and satisfy or exceed regulatory adequacy standards will
15 not change if Premera becomes a for-profit company. We will continue to have to pay
16 competitive reimbursement rates. Providers will not suddenly be more willing to accept
17 lower reimbursement because Premera has become a for-profit entity. We will be the
18 same company trying to compete in the same competitive landscape.

19 **Q. From the standpoint of entering the Washington market, how easy would it**
20 **be to establish a viable provider network?**

21 A. There are two ways in which an entrant to the Washington market can establish a
22 network: they can rent a network or they can build their own network.

23 Renting a network is a common way for a company to quickly enter a market and
24 provide a competitive network. There are at least two rental networks in Washington
with state-wide coverage —First Choice and PHCS. A new entrant could elect to rent

1 either and immediately become the beneficiary of a viable network. This method of
2 network development is used quite frequently throughout the country and in Washington.
3 As an example, CIGNA rents the First Choice network in Washington. Renting such a
4 network is a fast and cost effective way to acquire access to a network.

5 An alternative to renting a network is to create a network by contracting with
6 providers directly. This is a more time and resource intensive process than simply
7 renting a network. However, a proprietary network can be advantageous as it can
8 provide a health plan greater control over how the network is structured and reimbursed.
9 While contracting a network can be time intensive, this is a common task for established
10 as well as start-up health plans.

11 **Q. Can new entrants that rent networks be competitive?**

12 A. Yes. They can offer a competitive network and product for a competitive price.
13 An example is CIGNA. As I said before, CIGNA rents that First Choice network for its
14 group health care coverage products.

15 **Q. Does this conclude your testimony?**

16 A. Yes, it does.
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